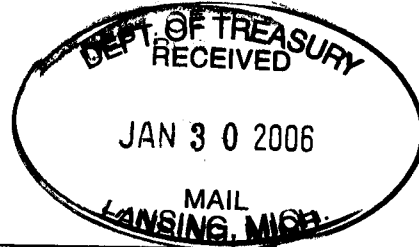


# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.



Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Detroit Downtown Development Authority</b>	County <b>Wayne</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>9/1/05</b>	Date Accountant Report Submitted to State: <b>12/23/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>George Johnson &amp; Company</b>			
Street Address <b>1200 Buhl Building, 535 Griswold</b>		City <b>Detroit</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>48226-3689</b>	Date <b>1.25.06</b>

CITY OF DETROIT DOWNTOWN  
DEVELOPMENT AUTHORITY  
(A Component Unit of the  
City of Detroit, Michigan)

**FINANCIAL STATEMENTS**

**June 30, 2005**  
**(With Comparative Totals for**  
**June 30, 2004)**

# CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

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**George Johnson  
& Company**

1200 Buhl Building • 535 Griswold Street • Detroit, Michigan 48226-3689  
(313) 965-2655 • Fax (313) 965-4614

**INDEPENDENT AUDITORS' REPORT**

September 1, 2005

To the Board of Directors  
City of Detroit Downtown Development Authority  
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Detroit Downtown Development Authority ("DDA"), a component unit of the City of Detroit, Michigan, as of, and for the year ended, June 30, 2005, which collectively comprise DDA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of DDA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from DDA's financial statements as of, and for the year ended, June 30, 2004 and, in our report dated August 13, 2004, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DDA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of DDA as of June 30, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and schedule of revenue and expenditures - budget and actual (general fund) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
CERTIFIED PUBLIC ACCOUNTANTS

# CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**June 30, 2005**

---

This section of the annual report of the City of Detroit Downtown Development Authority ("DDA") presents management's discussion and analysis of DDA's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with DDA's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

DDA continued its work in the downtown Detroit area. The Lower Woodward Improvement program and the Book Cadillac project continued to receive attention. The Housing/Office/Retail program was utilized to help several projects, including the construction of an office building on top of the Kennedy Garage. Campus Martius and the East Riverfront Roads continued. Net assets decreased as activity on the projects increased.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report contains two types of financial statements. The statements of net assets and statements of activities (which are presented on pages 7 and 8) are considered government-wide financial statements. The balance sheets and statements of revenue, expenditures, and fund balances for governmental funds (which are presented on pages 9, 10, and 12) are considered fund financial statements. A further discussion of each type of statement follows.

#### **Government-Wide Financial Statements**

The government-wide financial statements report information about DDA as a whole using accounting methods similar to those used by private-sector companies and non-profit organizations. The statements of net assets include all of DDA's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statements of activities, regardless of when cash is received or paid.

The two government-wide financial statements report DDA's net assets and how they have changed. Net assets represent the difference between DDA's assets and liabilities, and they represent one way to measure DDA's financial health, or position. Over time, increases or decreases in DDA's net assets are an indicator of whether its financial health is improving or deteriorating.

#### **Fund Financial Statements**

The fund financial statements provide more detailed information about DDA's funds, not DDA as a whole. Funds are accounting devices that DDA uses to keep track of specific sources of funding and spending for particular purposes.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

June 30, 2005

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Fund Financial Statements (continued)**

Most of DDA's activities are included in governmental funds, which focus on how cash, and other financial assets that can be readily converted to cash, flow in and out, and show the balances left at the end of the year that are available for spending. As such, the fund financial statements provide a detailed short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance DDA's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on pages 11 and 13 that explains the relationship between the fund financial statements and the government-wide financial statements.

The notes to the financial statements, which begin on page 14, explain some of the information in the financial statements and provide more detailed data. A comparison of DDA's general fund revenue and expenditures to its budget is provided on page 40.

**FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE**

Table 1 reflects the condensed statements of net assets as of June 30, 2005 and 2004:

**Table 1**  
**Statements of Net Assets**  
**June 30, 2005 and 2004**  
*(in millions of dollars)*

	<u>2005</u>	<u>2004</u>
<b>Assets:</b>		
Cash and investments	\$ 84.4	\$ 118.8
Notes receivable	24.1	31.9
Capital assets	32.2	33.1
Other assets	62.3	46.6
<b>Total Assets</b>	<u><b>\$ 203.0</b></u>	<u><b>\$ 230.4</b></u>

## CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)****June 30, 2005****FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)****Table 1****Statements of Net Assets (continued)****June 30, 2005 and 2004***(in millions of dollars)*

	<u>2005</u>	<u>2004</u>
<b>Liabilities:</b>		
Long-term liabilities:		
Due or expected to be paid within one year	\$ 11.1	\$ 10.5
Due or expected to be paid in more than one year	156.7	167.8
Other liabilities	<u>16.1</u>	<u>16.0</u>
<b>Total Liabilities</b>	<u><b>183.9</b></u>	<u><b>194.3</b></u>
<b>Net Assets (Deficit):</b>		
Invested in capital assets, net of related debt	32.2	33.1
Restricted for development	-0-	1.6
Unrestricted	<u>(13.1)</u>	<u>1.4</u>
<b>Total Net Assets</b>	<u><b>\$ 19.1</b></u>	<u><b>\$ 36.1</b></u>

The net assets of DDA decreased 47 percent to \$19.1 million. This decrease is attributable to several factors, including increased spending on project costs for the Lower Woodward Improvement program, a one-time refund to the State of Michigan, and decreased tax revenue due to renaissance zones.

Decreases in assets have occurred because of the cash spent on DDA's various development projects, as well as some larger notes receivable being paid off or removed, which has the effect of decreasing the net value of notes receivable. As of June 30, 2005, DDA had a receivable on its books for property taxes due from the City. As of June 30, 2004, the City's property tax payment had already been received; therefore, the other assets category is higher as of June 30, 2005.

The only significant change in liabilities is the decrease in long-term liabilities, which decreased \$11.1 million in accordance with the debt service schedule on bonds contract payable.

## CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)****June 30, 2005****FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)**

Table 2 reflects the condensed statements of activities for the years ended June 30, 2005 and 2004:

**Table 2****Statements of Activities****For the Years Ended June 30, 2005 and 2004***(in millions of dollars)*

	<u>2005</u>	<u>2004</u>
<b>Revenue:</b>		
Program revenue	\$ 9.3	\$ 11.1
General revenue:		
Property taxes	18.3	29.1
Other revenue	<u>0.9</u>	<u>0.7</u>
<b>Total Revenue</b>	<b>28.5</b>	<b>40.9</b>
<b>Expenses:</b>		
Economic development	<u>45.5</u>	<u>62.5</u>
<b>Net Increase (Decrease) in Net Assets</b>	<b>(17.0)</b>	<b>(21.6)</b>
Net Assets, Beginning of Year	<u>36.1</u>	<u>57.7</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 19.1</u></b>	<b><u>\$ 36.1</u></b>

The principal changes in this table are the decrease in property tax revenue and the decrease in project costs. As detailed earlier, the decrease in revenue is due to renaissance zones and a large refund to the State of Michigan. The decrease in project costs has occurred as DDA has spent less on some projects.

The following are highlights of the comparison of DDA's general fund revenue and expenditures to its budget, as shown on page 40:

- DDA holds title to the Kennedy Square Garage. DDA has received more revenue than expected from the garage, resulting in a positive variance in other revenue.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**



**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

**June 30, 2005**

---

**FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)**

- Administrative and operating expenses did not meet budgeted levels due to tight control over contingency based expenses in the general fund. Professional fees were slightly higher than budgeted due to increased insurance and other fees.

**CAPITAL ASSETS AND LONG-TERM LIABILITIES**

As of June 30, 2005, DDA held capital assets of \$32.2 million. This balance consisted primarily of various parcels of land, as well as over \$25 million invested in the Campus Martius Garage.

DDA had \$168 million in bonds outstanding as of June 30, 2005, which is a decrease of six percent from June 30, 2004. The decrease is due to debt service payments on the bonds, which were made in accordance with the schedule of payments required in the bond issuance. On July 1, 2005, a scheduled debt service payment was made, further decreasing the outstanding balance of the bonds. This activity is summarized in Note H to the financial statements.

**ECONOMIC FACTORS**

DDA receives a large majority of its revenue through tax receipts. The economic health of the downtown area has a substantial impact on the level of revenue received. The rebirth of downtown Detroit continues and, as long as it does, DDA should continue to be funded adequately. Projects such as the Campus Martius project and the Lower Woodward Improvement program should aid in improving the future of downtown Detroit.

**FINANCIAL CONTACT**

This financial report is designed to present its users with a general overview of DDA's finances and to demonstrate DDA's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the office of the chief financial officer of Detroit Economic Growth Corporation, 500 Griswold, Suite 2200, Detroit, Michigan 48226.

## CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**STATEMENTS OF NET ASSETS****June 30, 2005****(With Comparative Totals as of June 30, 2004)**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets:</b>		
Cash (Note A)	\$ 1,027,619	\$ 1,428,134
Escrow deposits (Note A)	140,251	109,884
Investments (Note A)	83,233,758	117,268,182
Accounts and contracts receivable (net of allowance of \$36,661 in 2005 and 2004)	768,803	772,684
Property taxes receivable, net (Note C)	11,626,196	4,748,316
Accrued interest receivable, net (Note B)	925,810	1,169,799
Notes receivable, net (Notes A and B)	24,120,792	31,896,225
Due from City of Detroit (Note E)	33,600,000	33,600,000
Prepaid expenses	109,206	109,708
Unamortized bond and note issue costs (Note A)	3,469,960	3,631,939
Land contract receivable (no allowance considered necessary (Note F)	1,820,200	1,820,200
Capital assets (Note D):		
Nondepreciable capital assets	7,544,670	7,544,670
Depreciable capital assets, net	24,637,341	25,532,150
Other assets (Note G)	10,021,003	736,003
<b>Total Assets</b>	<b>203,045,609</b>	<b>230,367,894</b>
<b>Liabilities:</b>		
Accounts payable	2,433,457	2,182,170
Accrued interest payable	6,287,196	6,617,492
Due to other governmental agencies	608,147	735,392
Property tax advances (Note C)	6,819,044	6,410,873
Other liabilities (Note I)	16,929	16,870
Long-term liabilities (Note H):		
Due or expected to be paid within one year	11,109,697	10,477,697
Due or expected to be paid in more than one year	156,670,770	167,780,467
<b>Total Liabilities</b>	<b>183,945,240</b>	<b>194,220,961</b>
<b>Net Assets (Deficit):</b>		
Invested in capital assets, net of related debt	32,182,011	33,076,820
Restricted for development	-0-	1,622,333
Unrestricted	(13,081,642)	1,447,780
<b>Total Net Assets</b>	<b>\$ 19,100,369</b>	<b>\$ 36,146,933</b>

See notes to financial statements.

## CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**STATEMENTS OF ACTIVITIES****For the Year Ended June 30, 2005****(With Comparative Totals for the Year Ended June 30, 2004)**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Expenses:</b>		
Economic development program:		
Project costs	\$ 26,300,137	\$ 35,530,569
Administrative and operating expenses (Note A)	3,208,097	3,097,881
Interest expense	12,574,393	13,234,979
Professional fees	404,434	346,987
Provision for uncollectible loans and taxes (Notes B and C)	1,914,653	9,185,421
Amortization of bond and note issue costs (Note A)	161,979	161,979
Depreciation (Note D)	904,809	906,080
<b>Total Program Expenses</b>	<b>45,468,502</b>	<b>62,463,896</b>
<b>Program Revenue:</b>		
Economic development program	9,311,503	11,095,995
<b>Total Program Revenue</b>	<b>9,311,503</b>	<b>11,095,995</b>
<b>Net Program Expense</b>	<b>36,156,999</b>	<b>51,367,901</b>
<b>General Revenue:</b>		
Property taxes (Note C)	18,238,362	29,101,165
Other revenue	872,073	674,622
<b>Total General Revenue</b>	<b>19,110,435</b>	<b>29,775,787</b>
<b>Net Increase (Decrease) in Net Assets</b>	<b>(17,046,564)</b>	<b>(21,592,114)</b>
Net Assets, Beginning of Year	36,146,933	57,739,047
<b>Net Assets, End of Year</b>	<b>\$ 19,100,369</b>	<b>\$ 36,146,933</b>

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2005  
(With Comparative Totals as of June 30, 2004)

	2005				2004			
	General Fund	Development Fund	Debt Service Fund	Total All Funds	General Fund	Development Fund	Debt Service Fund	Total All Funds
<b>ASSETS</b>								
Cash (Note A)	\$ 17,332	\$ 1,010,287	\$ -0-	\$ 1,027,619	\$ 55,676	\$ 1,372,458	\$ -0-	\$ 1,428,134
Escrow deposits (Note A)		140,251		140,251		109,884		109,884
Investments (Note A)	916,290	75,674,142	6,643,326	83,233,758	925,003	103,494,373	12,848,806	117,268,182
Accounts and contracts receivable (net of allowance of \$36,661 in 2005 and 2004 in the general fund)								
Property taxes receivable, net (Note C)	35,542	733,261		768,803	39,423	733,261		772,684
Accrued interest receivable, net (Note B)	872,629		10,753,567	11,626,196	501,933		4,246,383	4,748,316
Notes receivable, net (Notes A and B)		925,810		925,810		1,169,799		1,169,799
Due from City of Detroit (Note E)		24,120,792		24,120,792		31,896,225		31,896,225
Prepaid expenditures	109,206	33,600,000		33,600,000	109,708	33,600,000		33,600,000
Other assets (Note G)	35,000	9,986,003		10,021,003		736,003		109,708
<b>Total Assets</b>	<b>\$ 1,985,999</b>	<b>\$ 146,190,546</b>	<b>\$ 17,396,893</b>	<b>\$ 165,573,438</b>	<b>\$ 1,631,743</b>	<b>\$ 173,112,003</b>	<b>\$ 17,095,189</b>	<b>\$ 191,838,935</b>

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

BALANCE SHEETS - GOVERNMENTAL FUNDS (CONTINUED)

June 30, 2005  
(With Comparative Totals as of June 30, 2004)

	2005				2004			
	General Fund	Development Fund	Debt Service Fund	Total All Funds	General Fund	Development Fund	Debt Service Fund	Total All Funds
<b>LIABILITIES AND FUND BALANCES</b>								
<b>Liabilities:</b>								
Accounts payable	\$ 174,402	\$ 2,259,055	\$ -0-	\$ 2,433,457	\$ 67,300	\$ 2,114,870	\$ -0-	\$ 2,182,170
Accrued interest payable			6,287,196	6,287,196			6,617,492	6,617,492
Due to other governmental agencies		608,147		608,147	116,663	618,729		735,392
Property tax advances (Note C)		6,819,044		6,819,044		6,410,873		6,410,873
Maturing bonds contract payable (Note H)			11,109,697	11,109,697			10,477,697	10,477,697
Other liabilities (Note I)		16,929		16,929		16,870		16,870
<b>Total Liabilities</b>	<b>174,402</b>	<b>9,703,175</b>	<b>17,396,893</b>	<b>27,274,470</b>	<b>183,963</b>	<b>9,161,342</b>	<b>17,095,189</b>	<b>26,440,494</b>
<b>Fund Balances:</b>								
Reserved for development		136,487,371		136,487,371		163,950,661		163,950,661
Reserved for prepaid expenditures	109,206			109,206	109,708			109,708
Unreserved	1,702,391			1,702,391	1,338,072			1,338,072
<b>Total Fund Balances</b>	<b>1,811,597</b>	<b>136,487,371</b>	<b>-0-</b>	<b>138,298,968</b>	<b>1,447,780</b>	<b>163,950,661</b>	<b>-0-</b>	<b>165,398,441</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,985,999</b>	<b>\$ 146,190,546</b>	<b>\$ 17,396,893</b>	<b>\$ 165,573,438</b>	<b>\$ 1,631,743</b>	<b>\$ 173,112,003</b>	<b>\$ 17,095,189</b>	<b>\$ 191,838,935</b>

See notes to financial statements.

## CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO  
STATEMENTS OF NET ASSETS****June 30, 2005****(With Comparative Totals as of June 30, 2004)**

	<u>2005</u>	<u>2004</u>
Total Fund Balances, Governmental Funds	\$ 138,298,968	\$ 165,398,441
Amounts reported for governmental activities in the statements of net assets differ from amounts reported in the governmental funds balance sheets due to the following:		
Long-term accounts receivable applicable to governmental activities are not due and collectible in the current period and, therefore, are not reported in the funds. These assets consist of the following:		
Land contract receivable	1,820,200	1,820,200
Long-term costs used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:		
Unamortized bond and note issue costs	3,469,960	3,631,939
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:		
Nondepreciable capital assets	7,544,670	7,544,670
Depreciable capital assets:		
Cost	26,833,841	26,823,841
Less: Accumulated depreciation	(2,196,500)	(1,291,691)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:		
Contract and bonds contract payable	<u>(156,670,770)</u>	<u>(167,780,467)</u>
<b>Total Net Assets, Governmental Activities</b>	<b><u>\$ 19,100,369</u></b>	<b><u>\$ 36,146,933</u></b>

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2005  
(With Comparative Totals for the Year Ended June 30, 2004)

	2005				2004			
	General Fund	Development Fund	Debt Service Fund	Total All Funds	General Fund	Development Fund	Debt Service Fund	Total All Funds
<b>Revenue:</b>								
Property taxes (Note C)	\$ 869,778	\$ 6,258,887	\$ 11,109,697	\$ 18,238,362	\$ 799,162	\$ 17,824,306	\$ 10,477,697	\$ 29,101,165
Other revenue	872,073	9,311,503		10,183,576	674,622	11,095,995		11,770,617
<b>Total Revenue</b>	<b>1,741,851</b>	<b>15,570,390</b>	<b>11,109,697</b>	<b>28,421,938</b>	<b>1,473,784</b>	<b>28,920,301</b>	<b>10,477,697</b>	<b>40,871,782</b>
<b>Expenditures:</b>								
Current:								
Project costs		26,300,137		26,300,137		35,530,569		35,530,569
Administrative and operating expenses (Note A)	1,963,600	1,244,497		3,208,097	1,857,702	1,240,179		3,097,881
Interest expense		12,574,393		12,574,393		13,234,979		13,234,979
Professional fees	404,434			404,434	346,987			346,987
Provision for uncollectible loans and taxes (Notes B and C)		1,914,653		1,914,653		9,185,421		9,185,421
Debt service (Note H)			11,109,697	11,109,697			10,477,697	10,477,697
Capital outlay (Note D)		10,000		10,000		44,866		44,866
<b>Total Expenditures</b>	<b>2,368,034</b>	<b>42,043,680</b>	<b>11,109,697</b>	<b>55,521,411</b>	<b>2,204,689</b>	<b>59,236,014</b>	<b>10,477,697</b>	<b>71,918,400</b>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<b>(626,183)</b>	<b>(26,473,290)</b>	<b>-0-</b>	<b>(27,099,473)</b>	<b>(730,905)</b>	<b>(30,315,713)</b>	<b>-0-</b>	<b>(31,046,618)</b>
<b>Other Financing Sources (Uses):</b>								
Interfund transfers	990,000	(990,000)		-0-	953,134	(953,134)		-0-
<b>Net Increase (Decrease) in Fund Balances</b>	<b>363,817</b>	<b>(27,463,290)</b>	<b>-0-</b>	<b>(27,099,473)</b>	<b>222,229</b>	<b>(31,268,847)</b>	<b>-0-</b>	<b>(31,046,618)</b>
Fund Balances, Beginning of Year	1,447,780	163,950,661	-0-	165,398,441	1,225,551	195,219,508	-0-	196,445,059
<b>Fund Balances, End of Year</b>	<b>\$ 1,811,597</b>	<b>\$ 136,487,371</b>	<b>\$ -0-</b>	<b>\$ 138,298,968</b>	<b>\$ 1,447,780</b>	<b>\$ 163,950,661</b>	<b>\$ -0-</b>	<b>\$ 165,398,441</b>

See notes to financial statements.

## CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**RECONCILIATIONS OF GOVERNMENTAL FUNDS STATEMENTS OF REVENUE,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENTS OF  
ACTIVITIES****For the Year Ended June 30, 2005****(With Comparative Totals for the Year Ended June 30, 2004)**

	<u>2005</u>	<u>2004</u>												
Net Increase (Decrease) in Fund Balances, Governmental Funds	\$ (27,099,473)	\$ (31,046,618)												
<p>Amounts reported for governmental activities in the statements of activities differ from amounts reported in the governmental funds statements of revenue, expenditures, and changes in fund balances due to the following:</p> <p>Capital outlays are reported as expenditures in governmental funds. However, in the statements of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. During the years presented, these amounts are as follows:</p> <table> <tr> <td>Capital outlay</td><td style="text-align: right;">10,000</td><td style="text-align: right;">44,866</td></tr> <tr> <td>Less: Depreciation expense</td><td style="text-align: right;">(904,809)</td><td style="text-align: right;">(906,080)</td></tr> </table> <p>Bond and note issue costs are reported as expenditures in governmental funds. However, in the statements of activities, bond and note issue costs are allocated over the lives of the related debts as amortization expense. During the years presented, these amounts are as follows:</p> <table> <tr> <td>Amortization expense</td><td style="text-align: right;">(161,979)</td><td style="text-align: right;">(161,979)</td></tr> </table> <p>Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statements of net assets. During the years presented, these amounts are as follows:</p> <table> <tr> <td>Repayment of bonds contract payable</td><td style="text-align: right;"><u>11,109,697</u></td><td style="text-align: right;"><u>10,477,697</u></td></tr> </table>			Capital outlay	10,000	44,866	Less: Depreciation expense	(904,809)	(906,080)	Amortization expense	(161,979)	(161,979)	Repayment of bonds contract payable	<u>11,109,697</u>	<u>10,477,697</u>
Capital outlay	10,000	44,866												
Less: Depreciation expense	(904,809)	(906,080)												
Amortization expense	(161,979)	(161,979)												
Repayment of bonds contract payable	<u>11,109,697</u>	<u>10,477,697</u>												
<b>Net Increase (Decrease) in Net Assets, Governmental Activities</b>	<b><u>\$ (17,046,564)</u></b>	<b><u>\$ (21,592,114)</u></b>												

See notes to financial statements.



CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities and Purpose**

The City of Detroit Downtown Development Authority ("DDA") was created by the Detroit City Council by Ordinance No. 119-H on May 20, 1976, under the provisions of Act 197, Public Acts of Michigan of 1975. DDA was established for the purpose of promoting and developing economic growth in the downtown business district of the City of Detroit, Michigan (the "City"). DDA has been authorized to fund its activities by an ad valorem tax of one mill on real and tangible personal property not exempt by laws in the downtown development district, and the issuance of negotiable revenue and tax increment obligations to finance the development activities of DDA.

DDA may issue tax increment bonds and may not pledge for annual debt service requirements for any one year amounts in excess of 80 percent of the estimated tax increment revenue to be received from the development district for that year, or may pledge solely the tax increments of the project for which the bonds had been issued, and any other revenue for which DDA may specifically pledge.

For financial reporting purposes, DDA is a component unit of the City because the members of DDA's Board of Directors are appointed by the City's mayor and are confirmed by the Detroit City Council, which approves DDA's budget. There are no fiduciary funds or component units included in the accompanying financial statements.

**Basis of Presentation**

The financial statements of DDA consist of government-wide financial statements, which include the statements of net assets and statements of activities, and fund financial statements, which include the balance sheets and statements of revenue, expenditures, and fund balances for governmental funds.

**Government-Wide Financial Statements**

The government-wide financial statements report information about all of DDA's assets, liabilities, net assets, revenue, and expenses, similar to the financial statements of non-governmental enterprises.

**Fund Financial Statements**

For purposes of the fund financial statements, the accounts of DDA are organized on the basis of governmental funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. The various funds are summarized by type in the fund financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2005

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (continued)**

**Fund Financial Statements (continued)**

The following funds are used by DDA:

**General Fund**

The general fund is the general operating fund of DDA. It is used to account for all financial resources other than those required to be accounted for in another fund.

**Development Fund**

The development fund is used to account for financial resources to be used for the acquisition or construction of capital projects. DDA finances its development plan by capturing the tax proceeds on the increase in assessed value within the tax increment district located within the downtown area. Funds raised from this levy are restricted for use within the tax increment district pursuant to the Tax Increment Financing Plan.

**Debt Service Fund**

The debt service fund accounts for the servicing of general long-term obligations not being financed by proprietary or similar trust funds.

**Basis of Accounting**

**Government-Wide Financial Statements**

The government-wide financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Accordingly, revenue is recorded when earned, and expenses are recorded when incurred. Grants and other revenue intended for use within the development fund are classified as program revenue. All other revenue, including all property tax revenue, is classified as general revenue.

**Fund Financial Statements**

The fund financial statements are prepared on the modified accrual basis of accounting using the flow of current financial resources as a measurement focus.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting (continued)**

**Fund Financial Statements (continued)**

Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, which is when it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable. In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance. Monies virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements are reflected as revenue at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

**Administration**

For the years ended June 30, 2005 and 2004, DDA entered into agreements with Detroit Economic Growth Corporation ("DEGC") for administrative and professional services at an annual cost not to exceed \$1,400,000 per year for the years ended June 30, 2005 and 2004. These expenditures are reflected in administrative expenses for services rendered for each year.

**Accounting for Notes Receivable**

DDA is in the business of loaning funds to various companies for which, in some cases, the collection process does not begin immediately. In those instances, the collection process may not begin for a number of years. DDA provides a reserve for these loans if and when the loans are deemed to be partially or fully uncollectible. Due to the nature of the collection terms on these loans, recoverability of these loans may be uncertain and, furthermore, may not be evident for a number of years. The ultimate collectibility of these loans is dependent upon the long-term viability of these companies.

**Grant Revenue**

Grant revenue is recognized when expenses that are reimbursable under an agreement with the funding source are incurred.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash Deposits**

State of Michigan statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts be made with banks doing business and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

Custodial credit risk is the risk that, in the event of a bank failure, DDA's deposits may not be returned to DDA. DDA does not have a deposit policy for custodial credit risk.

As of June 30, 2005 and 2004, DDA's carrying amount of deposits and bank balances, and the bank balances that are not covered by federal depository insurance, are as follows:

	<u>2005</u>	<u>2004</u>
Carrying amount of deposits	\$ 1,027,619	\$ 1,428,134
Total bank balances	<u>\$ 2,609,702</u>	<u>\$ 2,056,562</u>
Uninsured and uncollateralized bank balances	<u>\$ 2,399,702</u>	<u>\$ 1,846,497</u>

**Investments**

Investments are recorded at fair value, based on quoted market prices. As of June 30, 2005 and 2004, DDA's investments are classified as follows:

	<u>2005</u>	<u>2004</u>
<b>Investments held by the counterparty's trust department or agent in DDA's name:</b>		
Money market funds:		
AAAm rating from Standard & Poor's:		
First American Treasury Obligations Fund,		
Class Y (weighted average maturity of		
three days)	\$ 64,952,405	\$ 85,318,574
Federated Government Obligations Fund:		
Maturity date June 30, 2005	2,573,910	-0-
Maturity date June 30, 2004	-0-	1,985,843
J.P. Morgan U.S. Treasury Plus Money Market		
Fund (weighted average maturity of 17 days)	101,180	167,973

## CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)Investments (continued)

	<u>2005</u>	<u>2004</u>
<b>Investments held by the counterparty's trust department or agent in DDA's name (continued):</b>		
Money market funds (continued):		
P-1 rating from Standard & Poor's:		
Comerica Governmental Cash Investment Fund (weighted average maturity of 21 days)	\$ 3,556,411	\$ 5,745,633
Total Money Market Funds	<u>71,183,906</u>	<u>93,218,023</u>
U.S. Treasury bills:		
Maturity date October 31, 2005	6,028,127	-0-
Maturity date July 15, 2004	<u>-0-</u>	<u>10,038,940</u>
Total U.S. Treasury Bills	<u>6,028,127</u>	<u>10,038,940</u>
Repurchase agreements:		
First Independence National Bank	<u>6,021,725</u>	<u>6,014,483</u>
U.S. agency bonds:		
AAAm rating from Standard & Poor's:		
Federal Home Loan Bank (maturity date October 5, 2004)	<u>-0-</u>	<u>7,996,736</u>
<b>Total Investments</b>	<u><b>\$ 83,233,758</b></u>	<u><b>\$ 117,268,182</b></u>

State of Michigan statutes authorize DDA to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Act, and mutual funds composed entirely of the above investments. DDA has no investment policy that would further limit its investment options.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments (continued)**

DDA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, DDA will not be able to recover the value of its investments that are in the possession of an outside party. DDA places no limit on the amount it may invest in any one issuer. Investments that represent five percent or more of DDA's total investments are identified in the preceding schedule.

**Escrow Deposits**

Escrow deposits are monies which are held in an escrow account administered by a financial institution designated by DDA and are used specifically for a development project. Interest earnings are either capitalized for future development use or are remitted to DDA upon notice. In both cases, interest earnings are recognized as interest income by DDA. Escrow deposits as of June 30, 2005 and 2004 are for the Monroe Garage project.

**Unamortized Bond and Note Issue Costs**

The costs of issuing the outstanding 1996 and 1998 DDA Tax Incremental bonds (see Note H for details), other than the bond discount, are capitalized on the statements of net assets and are classified as unamortized bond and note issue costs by DDA. They are amortized to financing costs on a ratable basis over the lives of the related debts.

**Capital Assets**

Capital assets are recorded at historical cost. DDA capitalizes all expenditures for land, buildings, equipment, fixtures, and improvements in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	40 years
Equipment and fixtures	7-25 years
Leasehold improvements	9-40 years

Expenditures for maintenance and repairs are charged to expense. Renewals or betterments which extend the life or increase the value of the properties are capitalized.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Interfund Transactions and Eliminations**

Interfund transactions are recorded as a payable by the receiving fund and as a receivable by the advancing fund in the fund financial statements. All interfund transactions and balances have been eliminated in the accompanying financial statements.

**Allowance for Doubtful Notes Receivable**

DDA charges notes receivable to the allowance for doubtful notes receivable when it is probable that a note receivable is impaired (that is, when DDA will be unable to collect all amounts due according to the contractual terms of the agreement). Changes in the present value of an obligation's expected future cash flows from one reporting period to the next are recorded as additions or reductions to the allowance for doubtful notes receivable. DDA also includes in the allowance for doubtful notes receivable a general provision based on DDA's historical recovery of these receivables.

**Reclassifications**

Certain reclassifications have been made to the 2004 financial statements to conform to classifications used in 2005.

**Development Fund Projects**

DDA is currently involved in several major projects, which primarily include the following:

- Riverfront Residential Project
- Trappers Alley
- Madison Center
- Congress/First Street Hotel Development - Cobo Hall Expansion
- Theater District
- Annis Fur Building Development
- International Hotel
- Ramada/Leland Downtown Hotel
- Harmonie Park Project
- Merchants Row
- Michigan Opera Theatre
- Hilton Garden Inn
- Music Hall Center for the Performing Arts
- Stadia Complex

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Development Fund Projects (continued)**

- Lower Woodward Initiative
- Campus Martius
- East Riverfront District
- Riverfront Promenade
- Kales Building
- Kennedy Square Office Building
- 1001 Woodward Parking Garage
- Au Bon Pain
- Sportsland, Inc.
- Michigan Opera Garage
- Development Financing Small Business Loan Transactions Program:
  - On Wheels, Inc.
  - Rootlevel
  - SVM Development Corporation
  - Cloud Nine Entertainment
  - Fieldstone Properties
  - Opus to Go, L.L.C.
  - Seldom Blues
  - Brush Street, L.L.C.
  - Marmalade Enterprises
  - Diversified Restaurant Group
  - Vincente III, L.L.C.
  - Dunwright, L.L.C.
  - Detroit Breakfast House

**Comparative Financial Information**

The required supplementary information to the financial statements does not include certain prior-year comparative information in sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with DDA's financial statements as of, and for the year ended June 30, 2004.



**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

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**NOTE B - NOTES RECEIVABLE**

DDA's portfolio of notes receivable as of June 30, 2005 and 2004 is as follows:

**Riverfront Associates**

This was an Urban Development Action Grant ("UDAG") promissory note dated August 3, 1982, which was secured by a mortgage, was non-interest bearing, and was payable in annual installments contingent upon available cash flow. The entire amount was due on the last day of loan year 40. This loan was settled at a discount during the year ended June 30, 2005, and the unpaid balance was written off.

**Riverfront Associates No. 3**

This was a promissory note dated December 1, 1989, secured by a mortgage. The note was payable over 15 years, ending on December 21, 2004, on which date a balloon payment of the principal balance was due and payable. The loan did not require periodic payments of principal or fixed payments of interest. This loan was settled during the year ended June 30, 2005 in exchange for DDA obtaining the land on which the related project was located for future development.

**Madison Center Limited Partnership**

This is a UDAG promissory note dated September 1, 1984, which is secured by a mortgage. Interest only is payable (at 11 percent) through October 1, 1990; the note is payable with interest and principal four times annually in the amount of \$122,335 through February 1, 2011, at which time the entire balance and accrued interest is due. The first payment was due January 1, 1988.

**Trappers Alley Limited Partnership**

Two notes receivable have been issued to Trappers Alley Limited Partnership:

- DDA issued a mortgage note over 40 years, dated December 27, 1983, which is secured by property, with interest at 12 percent. Interest only is payable, to the extent there is sufficient cash flow, for the first 20 years, beginning January 2, 1987; the note is fully amortized over the remaining 20 years.
- DEGC issued a promissory note, dated December 27, 1983; DDA purchased the note from DEGC on June 25, 1987. This note bears annual interest of 11.25 percent and is secured by the borrower's property. DDA has strong concerns regarding the recovery of this loan, as this project has had continuous operating losses.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

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**NOTE B - NOTES RECEIVABLE (CONTINUED)**

**Trappers Alley Limited Partnership (continued)**

The current underutilization of the space (only two floors of the five-story structure are being used) adds to these concerns. Unpaid interest has been accrued on this loan.

**Randolph Center Limited Partnership**

This is a UDAG promissory note dated July 6, 1992, secured by a mortgage. There is no fixed interest rate, but annual payments equal to 15 percent of net annual cash flow are to be made as contingent interest. The entire amount is due 15 years from the completion date of the loan, or no later than August 30, 2008.

**Little Caesar Enterprises, Inc.**

This is a promissory note dated October 16, 1987, secured by property. The note is payable in annual installments, based on principal only, commencing on December 31, 1992, with the entire remaining principal balance due on December 31, 2007. Interest shall accrue at two percent above Bank One's prime rate only upon an event of default, as defined by the loan agreement.

**Annis Historic Properties**

This is a promissory note dated August 28, 1988, secured by property, amended on December 9, 1998 and on November 19, 2003. Under the amended terms, interest accrues at a rate of six percent per annum. Principal and interest payments are due monthly. Payments are based upon a 30-year amortization schedule, with a balloon payment due on December 15, 2008 of all outstanding principal and interest.

**Tobin-Harmonie Park Limited Partnership**

This is a UDAG promissory note dated July 6, 1992, secured by a mortgage. There is no fixed interest rate, but annual payments equal to 15 percent of net annual cash flow are to be made as contingent interest. The entire amount is due 15 years from the completion date of the loan, or no later than August 30, 2008.

**Charles A. Forbes**

This is a promissory revolving loan note dated February 13, 1990, as amended on May 29, 1997 and again amended on March 1, 1999, secured by a mortgage on various properties. The note does not bear interest.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

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**NOTE B - NOTES RECEIVABLE (CONTINUED)**

**Charles A. Forbes (continued)**

The loan is to be repaid in 19 equal annual installments of \$177,500, commencing on December 31, 1999 and continuing through December 31, 2017, with one final installment of \$27,500 due on December 31, 2018.

**SVM Development Corporation**

Five notes receivable have been issued to SVM Development Corporation:

- DDA issued a promissory note dated January 29, 1992, secured by a mortgage. No fixed interest shall be charged on the loan. Contingent interest shall be due and payable annually based on the net annual cash flow percentage and the net proceeds percentage. There is no requirement to make principal payments during the loan term. By August 16, 2007, the note shall be payable in one balloon payment sufficient to pay off the entire principal balance and any interest due.
- DDA issued another promissory note dated March 29, 1995, secured by a mortgage. No fixed interest shall be charged on the loan. Contingent interest shall be due and payable annually based on the net annual cash flow percentage and the net proceeds percentage. There is no requirement to make principal payments during the loan term. By December 31, 2011, the note shall be payable in one balloon payment.
- DDA issued a UDAG promissory note dated July 6, 1992, secured by a mortgage. There was no fixed interest rate, but annual payments equal to 15 percent of net cash flow were to be made as contingent interest. The entire amount was due 15 years from the completion date of the loan, or no later than August 30, 2008. The borrower's lead lender foreclosed on the mortgaged building during the year ended June 30, 2005; therefore, the unpaid balance of this loan was written off.
- DDA issued another UDAG promissory note dated November 9, 1995, secured by a second position mortgage. The term of the loan is for 15 years with no interest. No principal payments are required until the loan matures. Contingent interest due annually on the loan equals 15 percent of net annual cash flow and 15 percent of net proceeds from refinancing or sale.
- DDA issued a Small Business Loan Transactions Program promissory note dated January 29, 1992, secured by a mortgage and a personal guaranty agreement. No fixed interest shall be charged on the loan.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

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**NOTE B - NOTES RECEIVABLE (CONTINUED)**

**SVM Development Corporation (continued)**

Contingent interest shall be due and payable annually based on the net annual cash flow percentage and the net proceeds percentage. There is no requirement to make principal payments during the loan term. By August 16, 2007, the note shall be payable in one balloon payment sufficient to pay off the entire principal balance and any interest due.

**400 Monroe Associates**

This is a UDAG promissory note dated February 25, 1988, secured by a mortgage and payable over 15 years. Interest payments are deferred and shall not accrue for years one and two. Interest only is payable in years three through five, and the repayment of principal and interest thereafter shall be payable in monthly installments, based on a 25-year amortization schedule, with a balloon payment in year 15 sufficient to pay off the remaining principal balance plus accrued interest thereon. Interest is payable at three percent per annum. The project was completed July 31, 1992.

**Leland House Limited Partnership Company**

This is a final promissory note dated July 9, 1991, secured by a mortgage and security agreement. The bankruptcy confirmation order, dated September 27, 1993, restricted the payment on debts so that DDA and the City shall share the payments (no payments in years one through five, \$30,000 per year in years six and seven, \$60,000 per year in years eight through 28, and \$90,000 per year in years 29 and 30) on a prorata basis.

**KWA I, L.L.C.**

This is a promissory note dated May 30, 2003 for residential loft and ground floor retail development. A payment of \$3,750,000 is due seven years from the project closing, with the balance to be repaid via single business tax credits or sale proceeds.

**Music Hall Center for the Performing Arts**

This is a promissory note dated October 11, 1995, secured by a second position assignment of fee income and a third mortgage on the related real property. Payments of interest only are due for the first two years of this loan; thereafter, fully amortizing principal and interest payments are due for the next 13 years. The note bears an interest rate of 6.5 percent per annum.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2005

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**NOTE B - NOTES RECEIVABLE (CONTINUED)**

**The Pub in Harmonie Park, L.L.C.**

Two notes receivable have been issued to The Pub in Harmonie Park, L.L.C.:

- DDA issued a promissory note dated June 21, 2000, secured by restaurant equipment and the personal guarantees of the owners. Payments of interest only were due monthly on the loan. The loan bore an interest rate of six percent per annum, amortized over 10 years, and was due five years from the date of the note.
- DDA issued another promissory note dated January 18, 2001, secured by restaurant equipment and the personal guarantees of the owners. Payments of principal and interest were due monthly on the loan. The loan bore an interest rate of six percent per annum, with a balloon payment of the remaining principal balance plus interest due on January 1, 2003.

No payments were made on either loan; therefore, both loan balances were written off during the year ended June 30, 2005.

**Opus to Go, L.L.C.**

This is a promissory note dated August 6, 1999, secured by a second lien on receivables, a second position on all asset filings, a second assignment of a lease, and the personal guarantees of the principals of the business. This is a fully amortizing 10-year loan. Interest is payable monthly in arrears and accrues from the date of closing at a rate of five percent per annum.

**1529 Broadway, L.L.C.**

This is a promissory note dated April 17, 2003, secured by a third mortgage and a corporate guaranty. Payments of interest only are due through May 1, 2005. Payments of principal and interest are due monthly beginning June 1, 2005 and continuing through April 1, 2018. The loan bears an interest rate of five percent per annum, with a balloon payment of the remaining principal balance plus interest due on May 1, 2018.

**DHG Associates Limited Partnership**

This is a term note dated April 1, 2003, secured by a second mortgage and personal and corporate guarantees. Interest accrues at various rates. At the close of the permanent loan, the borrower shall make a payment of accrued interest. Payments of interest only will be made quarterly until June 30, 2007. Quarterly payments of principal and interest will follow until June 30, 2010, when a balloon payment of the outstanding principal and interest balance will be due.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

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**NOTE B - NOTES RECEIVABLE (CONTINUED)**

**Brush Street, L.L.C.**

This is a promissory note dated October 27, 2000, secured by real property and the personal guarantees of the owners. Payments of principal and interest are due monthly on the loan. The loan bears an interest rate of five percent per annum, with a balloon payment of the remaining principal balance plus interest due on November 1, 2005.

**Fieldstone Properties**

This is a promissory note dated April 5, 2002, secured by real property and the personal guarantees of the owners. Payments of interest only are due for the first six months, followed by monthly payments of principal and interest. The loan bears an interest rate of five percent per annum, with a balloon payment of the remaining principal balance plus interest due on April 1, 2012.

**1521 Broadway, L.L.C.**

This is a promissory note for construction purposes, dated June 26, 2002, secured by real property. No fixed interest is charged on the loan. Repayment is due seven years from the issuance of a final certificate of occupancy for the project, or seven years from the date the borrower converts the construction portion of the bank debt into a permanent loan.

**Rootlevel**

This is a promissory note dated March 20, 2002, secured by the borrower's accounts receivable, other assets, and the personal guarantees of the owners. Payments of principal and interest are due monthly on the loan. The loan bears an interest rate of four percent per annum, with a final payment date of April 1, 2007.

**Cloud Nine Entertainment**

This is a promissory note dated May 23, 2002, secured by corporate guarantees and the personal guarantees of the owners. No interest accrues, and no payments are due for the first 12 months of the note. Commencing June 1, 2003, payments of principal and interest are due monthly on the loan. The loan bears an interest rate of four percent per annum, with a final payment date of May 1, 2009.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

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**NOTE B - NOTES RECEIVABLE (CONTINUED)**

**On Wheels, Inc.**

This is a promissory note dated August 30, 2001, secured by real property and the personal guarantee of the owner. Payments of principal and interest are due monthly on the loan. The loan bears an interest rate of five percent per annum, with a balloon payment of the remaining principal balance plus interest due on September 1, 2006.

**Kales Building, L.L.C.**

This is a construction loan disbursed over the course of the year ended June 30, 2004. The loan will be converted to a permanent loan on the earlier of September 2, 2006 or a conversion date whereby all permanent loan conditions have been met. Repayment of principal will be due on the earlier of September 2, 2013 or seven years from the conversion date.

**Seldom Blues, L.L.C.**

This is a promissory note, dated May 5, 2004, secured by equipment and the personal guarantee of the owner. Payments of interest only are due for the first 12 months of the loan. After that, payments of principal and interest will be made monthly through and including May 1, 2011. Interest accrues at the rate of four percent per annum.

**Redico**

This is a promissory note, dated May 6, 2005, for construction of a building on top of a garage owned by DDA. The repayment schedule is contingent upon the cash flow of the developer. Interest accrues at the rate of five percent per annum.

**1001 Woodward Parking Garage**

This is a promissory note, dated July 26, 2004, secured by a parking garage. The loan is interest-free for the first two years, then bears interest at a rate of one percent per annum, amortized over 13 years, with a balloon payment for the remaining unpaid balance due in 2014.

**Sportsland, Inc.**

This is a promissory note to a retailer, dated December 23, 2004, secured by equipment and an assignment of a lease. The repayment schedule is contingent upon the retailer's gross sales.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

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**NOTE B - NOTES RECEIVABLE (CONTINUED)**

**Michigan Opera Garage**

This is a promissory note, dated December 8, 2004, secured by a second mortgage. Repayment is due under two separate schedules. \$226,000 of the loan is interest-free for 36 months, then accrues interest at five percent per annum, amortized over 15 years, with a balloon payment for the unpaid balance due in 10 years. The remaining \$800,000 of the loan is interest-free during the term of the first position debt, then accrues interest at four percent per annum with fully amortizing payments thereafter.

**Au Bon Pain**

This is a promissory note, dated December 13, 2004, secured by equipment and personal guarantees. The note has a 10-year term, with payments of interest only due during the first year, followed by payments of principal and interest over a nine-year amortization period. No interest is charged for the first three months, and then accrues at four percent per annum thereafter.

**Marmalade Enterprises**

This is a promissory note, dated June 30, 2005, secured by a parking garage and personal guarantees. The loan has a 10-year term and is fully amortizing. Interest accrues at four percent per annum.

**Diversified Restaurant Group**

This is a promissory note, dated May 12, 2005, secured by equipment and personal guarantees. The loan has a term of five years, with payments of interest only due during the first year, followed by payments of principal and interest over a nine-year amortization period. A balloon payment is due at the end of the fifth year. No interest is charged for the first three months, and then accrues at four percent per annum thereafter.

**Vincente III, L.L.C.**

This is a promissory note, dated October 12, 2004, secured by a second mortgage, equipment, and a personal guarantee, with payments of interest only due during the first year, followed by payments of principal and interest over a nine-year amortization period. A balloon payment is due at the end of the seventh year. No interest is charged for the first three months, and then accrues at four percent per annum thereafter.



## CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)****June 30, 2005****NOTE B - NOTES RECEIVABLE (CONTINUED)****Dunwright, L.L.C.**

This is a promissory note, dated March 21, 2005, secured by equipment and a personal guarantee, with payments of interest only due during the first year, followed by payments of principal and interest over a nine-year amortization period. A balloon payment is due at the end of the fifth year. No interest is charged for the first three months, and then accrues at four percent per annum thereafter.

**Detroit Breakfast House**

This is a promissory note, dated May 2, 2005, secured by equipment and personal guarantees, with payments of interest only due during the first year, followed by payments of principal and interest over a nine-year amortization period. No interest is charged for the first three months, and then accrues at four percent per annum thereafter.

The outstanding balances on these notes receivable are as follows as of June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Riverfront Associates	\$ -0-	\$ 17,278,100
Riverfront Associates No. 3	-0-	9,250,000
Madison Center Limited Partnership	3,250,000	3,250,000
Trappers Alley Limited Partnership:		
DDA loan	2,800,000	2,800,000
DEGC loan	982,170	982,170
Randolph Center Limited Partnership	1,555,000	1,555,000
Little Caesar Enterprises, Inc.	637,251	1,087,251
Annis Historic Properties	1,134,458	1,136,227
Tobin-Harmonie Park Limited Partnership	1,425,000	1,425,000
Charles A. Forbes	2,335,000	2,512,500
SVM Development Corporation:		
DDA promissory notes:		
January 29, 1992 loan	900,000	900,000
March 29, 1995 loan	1,000,000	1,000,000
UDAG promissory notes:		
July 6, 1992 loan	-0-	1,065,000
November 9, 1995 loan	1,440,000	1,440,000
Small Business Loan Transactions Program		
promissory note	300,000	300,000

## CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)****June 30, 2005****NOTE B - NOTES RECEIVABLE (CONTINUED)**

	<u>2005</u>	<u>2004</u>
400 Monroe Associates	\$ 3,661,219	\$ 3,821,903
Leland House Limited Partnership Company	979,648	979,648
KWA I, L.L.C.	4,750,000	4,750,000
Music Hall Center for the Performing Arts	182,461	209,604
The Pub in Harmonie Park, L.L.C.		
June 21, 2000 loan	-0-	84,794
January 18, 2001 loan	-0-	191,486
Opus to Go, L.L.C.	97,283	118,953
1529 Broadway, L.L.C.	746,343	750,000
DHG Associates Limited Partnership	4,042,692	4,042,692
Brush Street, L.L.C.	178,867	184,220
Fieldstone Properties	189,672	193,374
1521 Broadway, L.L.C.	500,000	500,000
Rootlevel	166,258	166,258
Cloud Nine Entertainment	167,730	172,458
On Wheels, Inc.	105,982	112,832
Kales Building, L.L.C.	1,250,000	1,250,000
Seldom Blues, L.L.C.	395,075	400,000
Redico	3,200,000	-0-
1001 Woodward Parking Garage	500,000	-0-
Sportsland, Inc.	200,000	-0-
Michigan Opera Garage	1,026,000	-0-
Au Bon Pain	150,000	-0-
Marmalade Enterprises	200,000	-0-
Diversified Restaurant Group	120,000	-0-
Vincente III, L.L.C.	190,000	-0-
Dunwright, L.L.C.	150,000	-0-
Detroit Breakfast House	200,000	-0-
	<u>41,108,109</u>	<u>63,909,470</u>
Less: Allowance for doubtful notes receivable	<u>(16,987,317)</u>	<u>(32,013,245)</u>
<b>Net Notes Receivable</b>	<b><u>\$ 24,120,792</u></b>	<b><u>\$ 31,896,225</u></b>

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

**NOTE B - NOTES RECEIVABLE (CONTINUED)**

Accrued interest receivable on these notes receivable as of June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Accrued interest receivable	\$ 3,345,987	\$ 3,479,482
Less: Allowance for doubtful interest receivable	<u>(2,420,177)</u>	<u>(2,309,683)</u>
<b>Net Accrued Interest Receivable</b>	<b><u>\$ 925,810</u></b>	<b><u>\$ 1,169,799</u></b>

Changes in the allowances for doubtful notes and interest receivable are as follows for the years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 34,322,928	\$ 25,607,962
Additions	1,914,653	9,185,421
Less: Write-off of uncollectible notes receivable	<u>(16,830,087)</u>	<u>(470,455)</u>
<b>Balance, End of Year</b>	<b><u>\$ 19,407,494</u></b>	<b><u>\$ 34,322,928</u></b>

Because of the long-term nature of these notes receivable and the uncertainty of the time of collection on many of these notes receivable, the fair value of these notes receivable as of June 30, 2005 and 2004, as well as the balances of these notes receivable that will be collected within one year as of June 30, 2005, cannot be readily determined.

**NOTE C - PROPERTY TAXES**

DDA finances its general and administrative operations with the proceeds of a one-mill levy on the assessed value of the Downtown Development District. A portion of this fund has been designated by DDA's Board of Directors to meet existing contracts outstanding.

Effective July 1, 1978, DDA was authorized to finance its development plan by capturing the tax proceeds on the increases in the assessed value on real and personal property within the tax increment district located within the downtown development area. Funds raised from this levy are restricted for use within the tax increment district.

On July 19, 1978, DDA entered into an agreement with the Wayne County Board of Commissioners to exclude certain proceeds of the tax increment fund which have been previously designated for certain Wayne County operational and construction activities.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

**NOTE C - PROPERTY TAXES (CONTINUED)**

The City levies property taxes on July 1 of each year. Property taxes are due to the City on August 15 of each year, but may be paid in two installments, which are due on August 15 and December 31 of each year. Liens are assessed on unpaid taxes on July 1 of each year. The City remits collected property taxes to DDA in December and June of each year.

Property taxes receivable and property tax advances as of June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Tax increment district and one-mill levy taxes receivable	\$ 11,673,041	\$ 4,795,161
Less: Allowance for doubtful taxes receivable	<u>(46,845)</u>	<u>(46,845)</u>
<b>Net Property Taxes Receivable</b>	<b><u>\$ 11,626,196</u></b>	<b><u>\$ 4,748,316</u></b>
Tax increment district tax payments received in advance	<u>\$ 6,819,044</u>	<u>\$ 6,410,873</u>

The allowance for doubtful taxes receivable is based upon the historical uncollectible experience for total real and personal property tax assessments plus allowances for other specific accounts for which collection is uncertain.

In 1994, State of Michigan (the "State") voters passed Proposal A, which affected school property tax revenue. As a result, Tax Increment Plans are only allowed to capture school tax revenue to the extent necessary to cover existing debt service, and the excess must be returned to the State. An audit was completed by the State for the years ended June 30, 1995 through June 30, 2000, but an audit of subsequent years has not been completed as of June 30, 2005; therefore, an estimated allowance has been recorded for those years.

Property taxes recorded in the development and debt service funds for the years ended June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Tax increment district revenue	\$ 27,673,992	\$ 34,212,876
Less:		
Provision for estimated future refunds	<u>(10,305,408)</u>	<u>(5,910,873)</u>
	<b><u>\$ 17,368,584</u></b>	<b><u>\$ 28,302,003</u></b>

## CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)****June 30, 2005****NOTE D - CAPITAL ASSETS**

Nondepreciable capital asset activity for the years ended June 30, 2005 and 2004 is as follows:

	<u>Land</u>
Balance, July 1, 2003	<u>\$ 7,544,670</u>
<b>Balance, June 30, 2004</b>	<u><b>7,544,670</b></u>
<b>Balance, June 30, 2005</b>	<u><b>\$ 7,544,670</b></u>

Depreciable capital asset activity for the years ended June 30, 2005 and 2004 is as follows:

	<u>Buildings</u>	<u>Equipment and Fixtures</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b>Cost:</b>				
Balance, July 1, 2003	\$ 26,623,623	\$ 105,352	\$ 50,000	\$ 26,778,975
Acquisitions		44,866		44,866
<b>Balance, June 30, 2004</b>	<b>26,623,623</b>	<b>150,218</b>	<b>50,000</b>	<b>26,823,841</b>
Acquisitions		10,000		10,000
<b>Balance, June 30, 2005</b>	<u><b>\$ 26,623,623</b></u>	<u><b>\$ 160,218</b></u>	<u><b>\$ 50,000</b></u>	<u><b>\$ 26,833,841</b></u>
<b>Accumulated Depreciation:</b>				
Balance, July 1, 2003	\$ 277,551	\$ 85,352	\$ 22,708	\$ 385,611
Depreciation expense	887,454	17,376	1,250	906,080
<b>Balance, June 30, 2004</b>	<b>1,165,005</b>	<b>102,728</b>	<b>23,958</b>	<b>1,291,691</b>
Depreciation expense	887,454	16,105	1,250	904,809
<b>Balance, June 30, 2005</b>	<u><b>\$ 2,052,459</b></u>	<u><b>\$ 118,833</b></u>	<u><b>\$ 25,208</b></u>	<u><b>\$ 2,196,500</b></u>
<b>Net Depreciable Capital Assets:</b>				
Balance, June 30, 2004	\$ 25,458,618	\$ 47,490	\$ 26,042	\$ 25,532,150
Balance, June 30, 2005	<u><b>\$ 24,571,164</b></u>	<u><b>\$ 41,385</b></u>	<u><b>\$ 24,792</b></u>	<u><b>\$ 24,637,341</b></u>

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

**NOTE E - DUE FROM CITY OF DETROIT**

DDA has a loan agreement with the City, under which DDA loans funds to the City to cover the Cobo Hall Expansion Project and operations of the Downtown People Mover System. The loan is unsecured and bears no interest, and will be repaid by the City as general operating funds become available. An allowance for this receivable is included in the allowance for doubtful notes receivable (see Note B) as of June 30, 2005 and 2004.

**NOTE F - LAND CONTRACT RECEIVABLE**

DDA entered into a land contract with Woodward Center, L.L.C., dated December 9, 1999 and amended February 13, 2001 and December 14, 2001, in which DDA sold several parcels of land for loft developments. Payment on the contract is due in full on or before August 1, 2007. No interest will be charged if payment is received in full by the due date.

**NOTE G - OTHER ASSETS**

Other assets as of June 30, 2005 and 2004 consist of land acquired, and options to acquire land, for the development of the following projects that are not part of DDA's regular operations:

	<u>2005</u>	<u>2004</u>
Land:		
Washington Boulevard	\$ 736,003	\$ 736,003
Riverfront Residential Project	9,250,000	-0-
	<u>9,986,003</u>	<u>736,003</u>
Options to acquire land:		
Woodward Avenue	35,000	-0-
	<u>\$ 10,021,003</u>	<u>\$ 736,003</u>

**NOTE H - LONG-TERM LIABILITIES**

Long-term liabilities as of June 30, 2005 and 2004 consist of the following:

**Contract Payable**

The contract payable consists of amounts due to Amerivision Corporation under a UDAG used to partially finance development of the Trappers Alley Project.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE H - LONG-TERM LIABILITIES (CONTINUED)

Contract Payable (continued)

The Trappers Alley Project was financed in part with \$2,800,000 of UDAG funds received by the City and administered by DDA. The funds were originally loaned to the developer and are to be repaid, contingent upon cash flow, in installments over 40 years. The repayment proceeds will be used to liquidate DDA's obligation.

Bonds Contract Payable

The City and DDA have issued the following bonds:

**Issued by the City on August 1, 1989 ("1989 bonds"):**

Series 1989A tax-exempt bonds	\$ 15,225,000
Series 1989B taxable bonds	71,000,000

**\$ 86,225,000**

**Issued by DDA on April 18, 1996 ("1996 bonds"):**

Series 1996A taxable bonds	\$ 75,014,000
Series 1996B tax-exempt bonds	13,330,000
Series 1996C tax-exempt bonds	64,883,198
Series 1996D tax-exempt bonds	14,185,000

**\$ 167,412,198**

**Issued by DDA on September 1, 1998 ("1998 bonds"):**

Series 1998A tax-exempt bonds	\$ 68,900,000
Series 1998B taxable bonds	32,195,000
Series 1998C junior lien bonds	21,425,000

**\$ 122,520,000**

The principal and interest on the bonds are primarily payable from, and secured by, certain incremental property tax revenues to be received by DDA from Development Area No. 1 within the downtown business district (see Note A). Payments on the bonds contract payable are made from the debt service fund under the general bond resolution.

## CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE H - LONG-TERM LIABILITIES (CONTINUED)Bonds Contract Payable (continued)

A portion of the 1996 bond proceeds, \$87,996,800, was put into an escrow account to repay the 1989 bonds. A portion of the 1998 bond proceeds, \$65,124,175, was also put into an escrow account to repay the Series 1996C (partial refund) and the Series 1996D bonds. It is the escrow agent's responsibility for monitoring and making the required debt service payments on those bonds, which are no longer liabilities on DDA's financial statements.

Long-term liability activity for the years ended June 30, 2005 and 2004 is as follows:

	<u>Bonds Contract Payable</u>			
	<u>Contract Payable</u>	<u>Gross</u>	<u>Bond Discount</u>	<u>Net</u>
Balance, July 1, 2003	\$ 2,800,000	\$ 186,971,198	\$ 1,633,337	\$ 185,337,861
Less:				
Repayments		(9,950,000)		(9,950,000)
Amortization			(70,303)	70,303
<b>Balance, June 30, 2004</b>	<b>2,800,000</b>	<b>177,021,198</b>	<b>1,563,034</b>	<b>175,458,164</b>
Less:				
Repayments		(10,548,000)		(10,548,000)
Amortization			(70,303)	70,303
<b>Balance, June 30, 2005</b>	<b>\$ 2,800,000</b>	<b>\$ 166,473,198</b>	<b>\$ 1,492,731</b>	<b>\$ 164,980,467</b>
<b>Amounts Due Within One Year:</b>				
June 30, 2004	\$ -0-	\$ 10,548,000	\$ 70,303	\$ 10,477,697
June 30, 2005	\$ -0-	\$ 11,180,000	\$ 70,303	\$ 11,109,697

Maturities of long-term liabilities (excluding the bond discount) are as follows as of June 30, 2005:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 11,180,000	\$ 11,877,772	\$ 23,057,772
2007	11,865,000	11,191,927	23,056,927
2008	12,605,000	10,454,338	23,059,338
2009	11,995,000	12,187,627	24,182,627



CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2005**

**NOTE H - LONG-TERM LIABILITIES (CONTINUED)**

<b><u>For the Years Ending June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2010	\$ 12,755,000	\$ 11,419,352	\$ 24,174,352
2011-2015	35,809,726	47,984,663	83,794,389
2016-2020	29,436,155	43,564,230	73,000,385
2021-2025	27,157,547	44,554,293	71,711,840
2026-2029	16,469,770	15,583,650	32,053,420
	<b><u>\$ 169,273,198</u></b>	<b><u>\$ 208,817,852</u></b>	<b><u>\$ 378,091,050</u></b>

**NOTE I - OTHER LIABILITIES**

Other liabilities as of June 30, 2005 and 2004 consist of escrow deposits due to Leland House Limited Partnership Company. These deposits are utilized by DDA to pay tax and insurance obligations related to the Ramada/Leland Hotel project.

**NOTE J - RISK MANAGEMENT**

DDA has insurance policies covering its directors and officers. It also has general liability insurance and property insurance covering its various assets. At the request of the Board of Directors, DDA has obtained two excess general liability policies in addition to the original policy to ensure sufficient coverage. Due to the extent of insurance that DDA maintains, the risk of loss to DDA, in management's opinion, is minimal.

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)

For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Positive (Negative) Variance with Final Budget
<b>Revenue:</b>				
Property taxes	\$ 810,000	\$ 810,000	\$ 869,778	\$ 59,778
Other revenue	730,000	730,000	872,073	142,073
<b>Total Revenue</b>	<b>1,540,000</b>	<b>1,540,000</b>	<b>1,741,851</b>	<b>201,851</b>
<b>Expenditures:</b>				
Current:				
Administrative and operating expenses	2,270,000	2,270,000	1,963,600	306,400
Professional fees	355,000	355,000	404,434	(49,434)
<b>Total Expenditures</b>	<b>2,625,000</b>	<b>2,625,000</b>	<b>2,368,034</b>	<b>256,966</b>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<b>(1,085,000)</b>	<b>(1,085,000)</b>	<b>(626,183)</b>	<b>458,817</b>
<b>Other Financing Sources (Uses):</b>				
Interfund transfers	1,000,000	1,000,000	990,000	(10,000)
<b>Net Increase (Decrease) in Fund Balance</b>	<b>\$ (85,000)</b>	<b>\$ (85,000)</b>	<b>\$ 363,817</b>	<b>\$ 448,817</b>

See note to schedule of revenue and expenditures - budget and actual (general fund).

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTE TO SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL -  
GENERAL FUND (UNAUDITED)**

**For the Year Ended June 30, 2005**

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**NOTE A - BUDGETS AND BUDGETARY ACCOUNTING**

The City of Detroit Downtown Development Authority ("DDA") establishes a budget that is reflected in the financial statements for the general fund. The budget is presented on the modified accrual basis of accounting.

Budgeted amounts are as presented to DDA's Finance Committee and approved by DDA's Board of Directors and the Detroit City Council. No amendments to the budget were made during the year. Appropriations are authorized by DDA's management. Unexpended appropriations lapse at the end of the fiscal year.

**George Johnson  
& Company**

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(313) 965-2655 • Fax (313) 965-4614

September 1, 2005

To the Finance Committee and Management  
City of Detroit Downtown Development Authority  
Detroit, Michigan

Our audit of the financial statements of the City of Detroit Downtown Development Authority ("DDA") as of, and for the year ended, June 30, 2005 has been completed. The audit was aided in a positive manner by the assistance and cooperation of DDA's personnel.

In planning and performing our audit of DDA's financial statements, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect DDA's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

This report does not affect our report on the financial statements, dated September 1, 2005. We have not considered the internal control since the date of our report.

This report is intended solely for the information and use of the Finance Committee, management, and others within DDA and is not intended to be, and should not be, used by anyone other than these specified parties.

  
CERTIFIED PUBLIC ACCOUNTANTS